

## Message Text

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ACTION EB-08

INFO OCT-01 EA-07 ISO-00 FEA-01 AGRE-00 CEA-01 CIAE-00

COME-00 DODE-00 FRB-03 H-01 INR-07 INT-05 L-03

LAB-04 NSAE-00 NSC-05 PA-01 AID-05 SS-15 STR-04

ITC-01 TRSE-00 USIA-06 PRS-01 SP-02 OMB-01 /082 W

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P 140230Z APR 77

FM AMCONSUL HONG KONG

TO SECSTATE WASHDC PRIORITY 4491

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E.O. 11652: NA

TAGS: ETRD HK

SUBJECT: GSP: FIRST YEAR REVIEW-HONG KONG

REF: A) STATE 67507 B) STATE 49004

1. SUMMARY: HONG KONG GOVERNMENT (HKG) AND LOCAL EXPORTERS, GENERALLY SATISFIED WITH BENEFITS RECEIVED BY HK FROM US GSP, ALTHOUGH LIMITED 1976 GSP EXPERIENCE HAS NOT GIVEN HKG ENOUGH DATA TO EVALUATE ITS ECONOMIC EFFECTS PRECISELY. HKG OFFICIALS REMAIN HIGHLY SENSITIVE TO POLITICAL ISSUE OF HK RETAINING GSP BENEFITS EQUIVALENT TO THOSE OF ITS PRINCIPAL SE ASIAN COMPETITORS  
END SUMMARY.

2. HKG OFFICIALS HAVE DIFFICULTY IN ASSESSING ECONOMIC BENEFITS OF US GPS AFTER ONLY TEN MONTHS OF 1976 WHEN HK EXPORTS RECEIVED GSP TREATMENT, INCLUDING SEVERAL MONTHS SPENT IN GAINING FAMILIARITY WITH GSP PROCEDURES. GOVERNMENT OFFICIALS HOWEVER DO NOT HESITATE TO EVALUATE POLITICAL BENEFIT OF HK'S INCLUSION IN US GSP. HKG CLEARLY CONSIDERS ITS BENEFITING FROM GSP A MAJOR ASSET IN ITS COMPETITION WITH SOUTH KOREA, TAIWAN, SINGAPORE, AND TO SOME EXTENT, THE PHILIPPINES, FOR ITS SHARE OF US MARKET IN GSP-ELIGIBLE PRODUCTS.

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THE HKG WILL CONTINUE TO VALUE THIS POLITICAL BENEFIT EVEN AS HK'S EXPORT ECONOMY COMES TO DEPEND MORE HEAVILY ON HIGH-TECHNOLOGY PRODUCTS NOT ELIGIBLE FOR GSP. MOREOVER, DESPITE PRESENT DIFFICULTIES IN QUANTIFYING GPS ECONOMIC EFFECTS HKG EXPRESSES CONFIDENCE THAT GSP WILL INCREASE FUTURE EXPORT EARNINGS.

3. NOTWITHSTANDING THEIR GENERALLY FAVORABLE IMPRESSION OF GSP, HKG TRADE OFFICIALS CANNOT NOW ASCRIBE INCREASES OF HK EXPORTS TO THE US SPECIFICALLY TO GSP. ACCORDING TO HK DEPARTMENT OF COMMERCE AND INDUSTRY (DCI) STATISTICS, APPROXIMATELY 20 PERCENT OF HK'S EXPORTS TO THE US ENTERED UNDER GSP, ALTHOUGH USG FIGURES PROVIDED IN CONJUNCTION WITH REFTEL A, SHOW ROUGHLY 14 PERCENT OF HK'S 1976 EXPORTS TO THE US AS ACTUALLY HAVING ENTERED DUTY FREE (EXCLUDING GOODS REMOVED FROM GSP IN '76 ON COMPETITIVE NEED CRITERIA). THE 6 PERCENT DIFFERENCE EQUALS THE VALUE OF GOODS MARKED "A" REFTEL AND THEREFORE MIGHT REPRESENT ITEMS FOUND NOT QUALIFIED FOR GSP TREATMENT UPON ENTRY ALTHOUGH HK HAD ISSUED FORMS A FOR THEM. ONE HK DCI OFFICIALS SPECULATED THAT HK'S TOTAL EXPORTS TO THE US, WHICH ROSE 53 PERCENT IN 1976 OVER 1975 TOTALS, WOULD PROBABLY HAVE INCREASED BY ROUGHLY THAT PERCENTAGE ANYWAY DUE TO FACTORS UNRELATED TO GSP, SUCH AS PACE OF US ECONOMY RECOVERY AND US CONSUMER SPENDING PATTERNS. WE ALSO HAVE INDICATIONS THAT SOME HK EXPORTERS UNCERTAIN HOW TO ESTIMATE GSP BENEFITS, QUOTE PRICED TO US BUYERS WITHOUT REGARD TO DUTY STATUS, TAKING OR PASSING SMALL WINDFALL PROFIT IF SHIPMENT ENTERS US DUTY-FREE UNDER GPS.

4. HK DCI STAFF WHO MONITOR EXPORTS UNDER US GSP HAVE DETECTED SOME SMALL MANUFACTURES MAKING MINOR SHIFTS IN PRODUCT LINES (IE FROM ONE TSUSA CATEGORY TO ANOTHER) IN ORDER TO TAKE ADVANTAGE OF GSP. SUCH SHIFTS HAVE OCCURRED CHIEFLY AMONG MAKERS OF TOYS, LIGHT ELECTRONIC AND ELECTRICAL GOODS AND DECORATIVE ITEMS. HK DCI EXPECTS THESE ADJUSTMENTS TO CONTINUE AS CERTAIN PRODUCTS LOSE THEIR GSP ELIGIBILITY UPON LIMITED OFFICIAL USE

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EXCEEDING COMPETITIVE NEED CRITERIA. ACCORDINGLY, GOVERNMENT OFFICIALS VIEW THEM AS MINOR CHANGES IN PRODUCT LINES AND NOT AS SIGNIFICANT DIVERSIFICATION INTO NEW INDUSTRIAL REQUIRING NEW INVESTMENT OR EXPANDED LABOR FORCE. ALSO, HKG, LOCAL TRADE GROUPS AND CONGEN HAVE THUS FAR NOT DISCERNED HK EXPORTING "NEW 'NON-TRADITIONAL' PRODUCTS TO THE US AS A RESULT OF GSP. AS BEFORE (SINCE ABOUT 1960) THE MAINSTAYS OF HK'S EXPORTS HAVE BEEN IN RELATIVELY FEW PRODUCT CATEGORIES. EVEN THOUGH THE RANGE OF PRODUCTS HAS BEEN STEADILY UPGRADED TO HIGHER LEVELS OF SOPHISTICATION AND THERE HAS BEEN CONSIDERABLE DIVERSIFICATION WITHIN EXISTING HK INDUSTRIES.

5. AT THIS EARLY DATE THERE HAS NOT APPEARED ANY PATTERN OF NEW INVESTMENT IN HK TRACEABLE TO US GSP OR TO AN AWARENESS THAT US GSP BENEFITS PLUS OTHER GSP SCHEME BENEFITS MIGHT MAKE SUBSTANTIAL NEW INVESTMENT WORTH WHILE. IN ATTEMPTING TO ATTRACT NEW INDUSTRIAL INVESTMENT HK OFFICIALS STRESS "WELL-KNOWN ASSETS" OF DOMESTIC POLITICAL STABILITY, AVAILABILITY OF SKILLED AND FLEXIBLE LABOR, EXCELLENT COMMUNICATIONS, ETC. AND ALSO AT TIMES

THE AVILABILITY OF GSP. HOWEVER, HKG'S INDUSTRIAL INVESTMENT POLICIES NOW BEING INCREASINGLY DIRECTED TO EXPANSION INTO HIGH TECHNOLOGY PRODUCTS THAT WOULD NOT BENEFIT FROM GSP.

6. HK DCI HAS NO DIFFICULTIES IN ADMINISTERING/MONITORING US GSP, AND SENIOR US CUSTOMS BELIEVES DCI WORKS HONESTLY AND EFFICIENTLY. DCI PROCEDURES FOR ISSUING FORMS A GO SMOOTHLY. DCI CLASSIFIED ARTICLES FOR EXPORT ACCORDING TO THEIR UNDERSTANDING OF TSUSA CATEGORIES BUT WARNS EXPORTERS THAT DCI INTERPRETATIONS OF TSUSA MAY BE CHALLENGED BY US CUSTOMS AT PORTS OF ENTRY. NEVERTHELESS, DCI'S POLICY, FORMULATED IN CONSULTATION WITH US CUSTOMS OFFICER IN HK, HAS BEEN TO ISSUE FORMS A, EVEN IF DOUBT ABOUT A PRODUCT'S TSUSA CLASSIFICATION OR GSP STATUS.

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COME-00 DODE-00 FRB-03 H-01 INR-07 INT-05 L-03  
LAB-04 NSAE-00 NSC-05 PA-01 AID-05 SS-15 STR-04  
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7. HK DCI STAFF ADMINISTERING GSP, AND HK REPS IN US, ARE FAMILIAR WITH USG SEMI-ANNUAL REVIEW PROCEDURES. DCI OFFICIALS NOTE THAT PRESIDENTIAL DISCRETIONARY AUTHORITY IN REVIEW PROCEDURES (EXERCISED THROUGH TPSC) MIGHT OPEN POSSIBILITY FOR INEQUITABLE TREATMENT OF SOME GSP BENEFICIARY NATIONS. ON THIS POINT HK DCI EXPRESSED ITS DISSATISFACTION OVER DECISION TO REMOVE TSUSA 737.40 (TOYS WITH SPRING MECHANISM) FROM GSP WITH RESPECT TO HK (REFTEL B), CLAIMING THAT DECISION DEPRIVED HK OF CHANCE TO COMPETE UNDER GSP WITH ITS SE ASIA RIVALS FOR US MARKET. DCI OFFICIALS ALSO QUESTIONED LOGIC OF THE COMPETITIVE NEED CRITERION WHICH EXCLUDED FROM GSP THOSE PRODUCTS WHICH ACHIEVE MORE THAN 50 PERCENT SHARE OF US MARKET. DCI SUGGESTED SOME COMBINATION OF PERCENTAGE OF MARKET AND ACTUAL VOLUME OF SALE (EG 50 PERCENT AND SALES EXCEEDING US

\$10 MILLION WITH INFLATION FACTOR) AS ALTERNATIVE TO PRESENT  
CRITERION BASED ON PERCENTAGE ONLY.

8. COMMENT. CONGEN SHARES HKG AND LOCAL BUSINESS COMMUNITY'S  
OPINION THAT 1976 GSP RESULTS DO NOT PROVIDE ENOUGH DATA  
ADEQUATELY TO JUDGE SCHEME'S EFFECT ON HK EXPORTS ON  
INVESTMENT, DIVERSIFICATION OF HK'S INDUSTRIAL BASE, US EXPORTS  
TO HK, ADDITIONAL EXPERIENCE WITH US GSP PLUS COMPARISON  
WITH OTHER GSP'S IN WHICH HK BENEFITS WILL BE NEEDED BEFORE  
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MEANINGFUL CONCLUSIONS CAN BE DRAWN. NEVERTHELESS, CONGEN CON-  
TINUES TO BE REMINDED BY HKG OF THE IMPORTANCE THAT IT PLACES  
ON HK'S REMAINING A GSP BENEFICIARY DEVELOPING COUNTRY. HKG  
IS EGAR TO KEEP HK'S "DEVELOPING COUNTRY" IMAGE ALIVE IN VARIOUS  
VENUES, AND INCLUSION IN US AND OTHER GSP'S HELPS IT DO THAT.  
THIS IN TURN PROVIDES AN ENVIRONMENT THAT ENABLES  
THE US TO PURSUE ITS POLITICAL AND PARTICULARLY ITS COMMERCIAL  
OBJECTIVES IN HK WITHOUT SERIOUS OBSTRUCTION AND IN AN AMICABLE  
RELATIONSHIP WITH HKG. ACCORDINGLY, THE US GSP REMAINS AN  
DESIRABLE POLICY TOOL FOR US IN HK.  
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